



# CALIFORNIA Economic Indicators

January – February 2003

## 2002 Sputters to a Close

California's labor market wavered in December with a drop in employment and a rise in the unemployment rate.

### ■ REVIEW OF RECENT ECONOMIC DEVELOPMENTS

#### Employment

##### A Disappointing December

California's labor market faltered in December. Over 15,000 industry jobs were lost and the state's unemployment rate rose to 6.6 percent, breaking out of the 6.4 percent – 6.5 percent range it had been in since March. Also, job losses originally reported for November 2002 were revised up to 11,700. Thus, a net of 15,200 nonfarm jobs were lost between September and December.

The 15,400 jobs lost in December were spread across nearly all major industry sectors. Only services and the small mining sector posted gains. In apparent anticipation of a weak holiday buying season, wholesale and retail trade firms did not expand their payrolls as much as in the past. On a seasonally adjusted basis, wholesalers shed 6,000 jobs, while retail employment declined by 4,400. This made the trade sector the largest job loser among major industry sectors in December. Steep losses in air transportation and in trucking and warehousing led to a 3,000 job decline in the transportation and utilities sector.

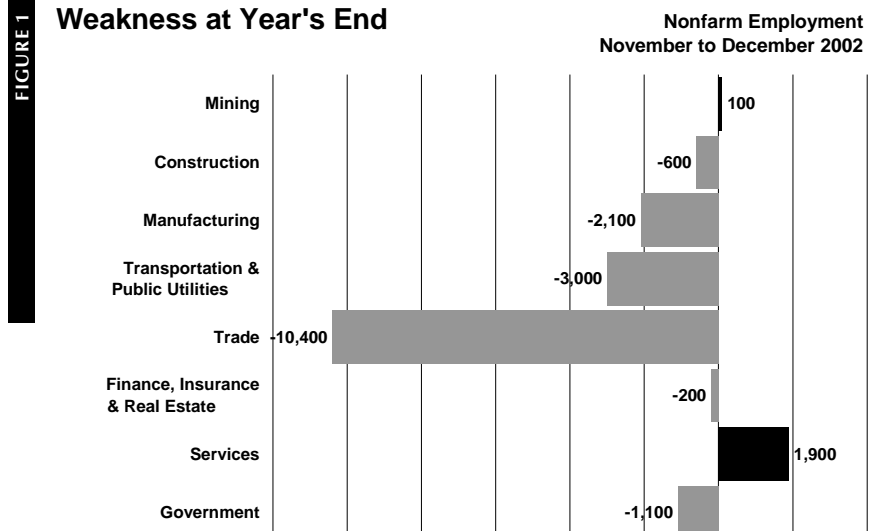
##### Real estate demand going strong

The slowdown in residential construction at year-end was apparently not a sign of weak demand for homes, as shown by the continued strength of California's real estate markets. Sales of existing single-family homes surged by almost 21 percent in December from the year-ago rate. Sales during the last three months of the year improved by nearly 16 percent over the same months of 2001. With this sustained demand, and no corresponding increase in building activity, home prices soared.

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FIGURE 1 Weakness at Year's End



The median price of existing single-family homes sold in December rose to \$338,110—a new record high for the state according to the California Association of Realtors. The median home price appreciated at a double digit year-over-year pace during every month of 2002, rising, on average, nearly 21 percent overall.

Even though manufacturing employment continued to decline, December's losses were the mildest since July. Manufacturers reduced their payrolls by 2,100 in December, compared to an average monthly loss of over 7,500 between July and November. Average monthly losses during 2001 exceeded 10,000 jobs, with high technology manufacturing continuing to be the chief source of this decline.

Despite unusual weakness in several areas, the service sector posted a modest job gain in December. Delayed seasonal hiring of tax preparers was responsible for a 4,000 job reduction in personal services. Agricultural services suffered an unusually large 3,700 job loss. Health services providers shed 1,400 jobs, the first decline in 29 months. The strongest gain in the service sector came in engineering and management, which added 2,400 positions.

Public sector employment fell by 1,100 in December. This is only the second month-over-month decline of the year.

California's unemployment rate rose to 6.6 percent in December, up from a revised 6.5 percent rate in November. The state's unemployment rate had bounced between 6.4 percent and 6.5 percent since March. This is the highest rate registered since February 1997. A year ago, the rate was 6.1 percent.

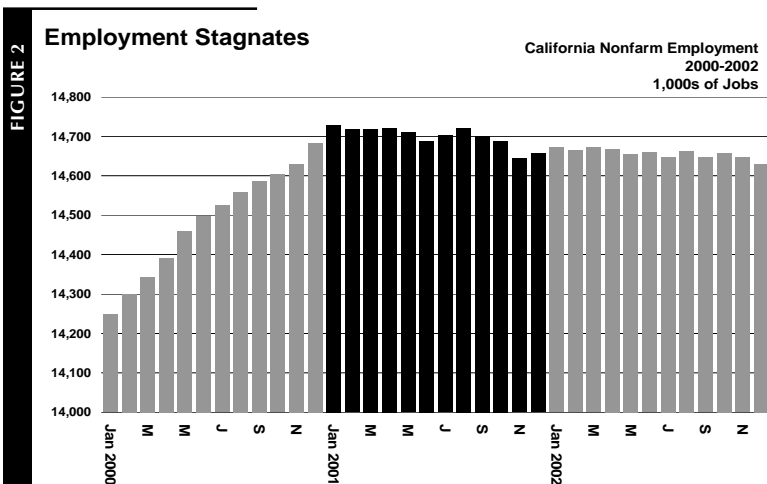
According to a survey of households, the number of California jobholders fell by 57,000 in December. The number of people unemployed increased by 9,100, to a total of 1,164,600. Of the unemployed, 697,900 were laid off, 81,600 left their jobs voluntarily, and the remaining were either new entrants or reentrants into the labor market.

December's industry employment losses brought the year-over-year drop to 25,800—a mere 0.2 percent. The continuing high technology slump made high technology manufacturing and business services the leading job losing sectors. Business service employment dropped by 34,800, or 2.7 percent, over the year. High technology manufacturing—computers, electronic components, aircraft, and instruments—shed about 20,000 jobs. Tourism in California also suffered in 2002, which, coupled with airline industry financial troubles, led to significant losses in air transportation—6,700 jobs, or 5.1 percent. On a year-over-year basis, government was the principal job growth industry, and over 80 percent of those gains came at the local level—principally in public education.

### More stability in 2002

Even though the December-to-December employment numbers make 2002 look comparable to 2001's bleak performance, this masks last year's improvement in stability. The early months of

2001 were the tail end of the phenomenal employment explosion of the late 1990's. The dot-com business and stock market bubbles yielded a final burst of 46,600 new jobs in January 2001. Serious deterioration began in May, and by the end of the year there would be 73,000 fewer jobs than in January. Although 2002 began with a modest job gain—15,500—it was still almost 58,000 short of the January 2001 job count. Throughout 2002 employment alternated between minor monthly gains and losses—five months of gains and seven of losses. The employment level was essentially flat throughout the year. So, even though sustained job growth did not return, California did fare better in 2002.



# Building Activity

## Home building slows

Throughout most of 2002, robust home building has been a positive counterbalance to the lack of progress on the employment front. Residential permitting, however, slowed noticeably in November and December, by 18 percent and 23 percent, respectively, on a month-to-month basis. Despite this slowdown, it was coming down from such a strong surge in October that home building in the last quarter of 2002 was 19.6 percent stronger than the last quarter of 2001.

Multifamily permitting suffered the most dramatic reduction, falling over 50 percent from the November pace and totaling less than a third of October's pace. Single-family home construction fell by only 9 percent. Homebuilding continued to be weakest in the San Francisco Bay Area and strongest in Orange County and the more moderately priced inland regions of San Bernardino, Riverside, and Sacramento.

## Commercial construction improves

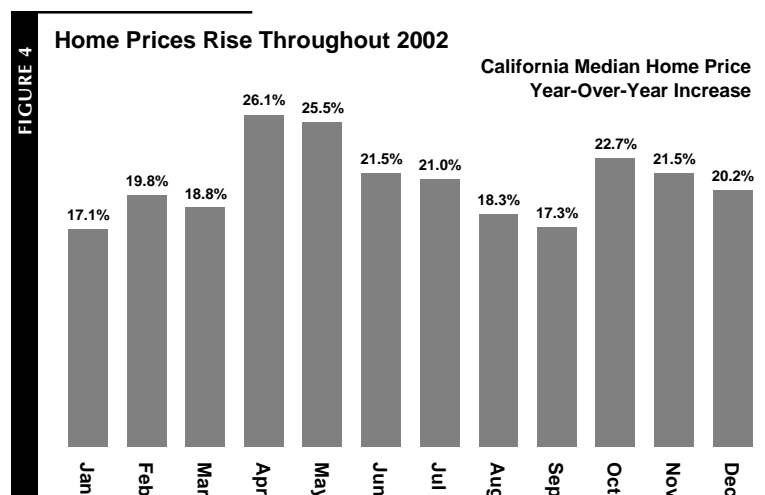
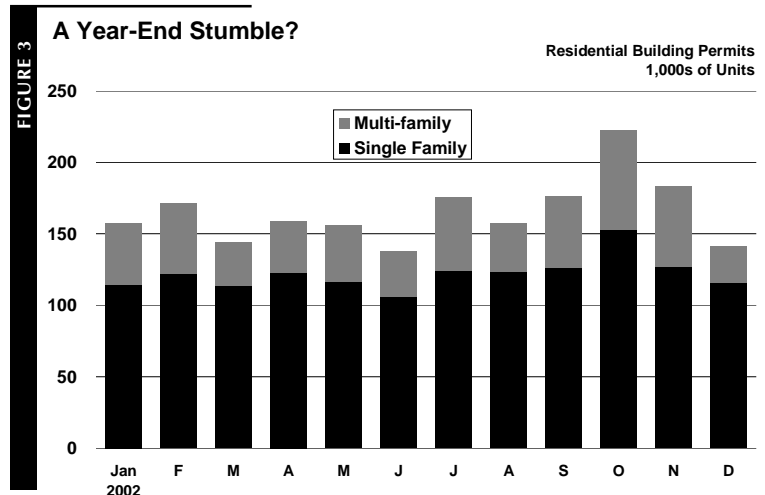
Contrary to home building trends, commercial construction was noticeably weak throughout most of 2002, but improved at year's end. During the first ten months of 2002, nonresidential construction, as measured by the value of permits issued, fell by nearly 17 percent from the comparable months of 2001. Led principally by increased store construction, November and December nonresidential permit issuances rose by 8.5 percent and 12 percent, respectively, from the same months of 2001.

In fact, store construction was the only commercial building category that did not turn in a worse performance in 2002. One fallout from overbuilding during the Internet boom was that office construction fell more than any other category of nonresidential construction in 2002—more than 50 percent. Hotel/motel and industrial construction were also notably weaker than in 2001.

# Real Estate

## Real estate demand going strong

The slowdown in residential construction at year-end was apparently not a sign of weak demand for homes, as shown by the continued strength of California's real estate markets. Sales of existing single-family homes surged by almost 21 percent in December from the year-ago rate. Sales during the last three months of the year improved by nearly 16 percent over the same months of 2001. With this sustained demand, and no corresponding increase in building activity, home prices soared. The median price of existing single-family homes sold in December rose to \$338,110—a new record high for the state according to the California Association of Realtors. The median home price appreciated at a double digit year-over-year pace during every month of 2002, rising, on average, nearly 21 percent overall.



## ■ 2003-04 ECONOMIC OUTLOOK

*The following is from the Governor's 2003-04 Budget. The forecasts were prepared in late November 2002 and are based on information available at that time.*

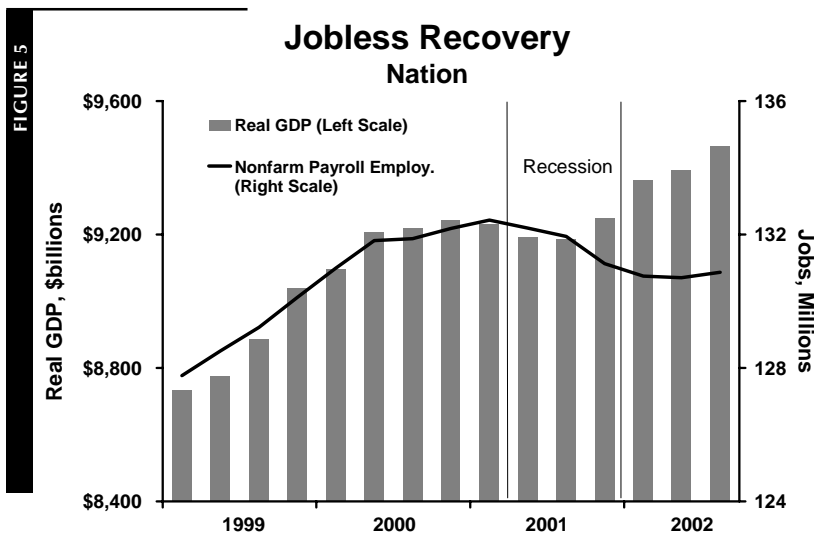
The national and California economies were growing slowly as 2002 came to a close. Labor markets were weak in California and most of the rest of the nation, and the state and national economies were experiencing jobless recoveries. Better had been expected from both economies at mid-year. Their recoveries are now projected to be sluggish through most of 2003, and economic growth in 2004 will be less robust than had been expected.

The national economy moved into the fourth quarter with a string of four consecutive quarters of increasing output but fewer jobs than when the string began. Consumers pulled back as the quarter proceeded, perhaps from concern about disappointing labor markets or the growing possibility of war, or perhaps from fatigue. As year-end neared, hopes for a strong holiday spending season faded.

California experienced modest job growth and good personal income growth in the first half of 2002, but the budding recovery stalled in the second half with employment falling. Exports of state-made merchandise continued to be down sharply in the third quarter. As the year drew to a close, the state's important high-tech sector was still struggling. The recovery of the California economy awaits an improved national economy.

### The Nation—Jobless Recovery

The national economy is growing slowly and unevenly. Although economic output increased in every quarter from the fourth quarter of 2001 to the third quarter of 2002, labor markets remain weak. In addition, several economic indicators have recently turned negative.



The four quarters of growing output beginning in the fourth quarter of 2001 added up to a gain of just slightly more than 3 percent. In the nine previous recoveries since the end of World War II, economic growth averaged 6.2 percent over the first four quarters of a recovery. Only in the 1991-92 recovery was output growth slower than 3 percent.

The current recovery was expected to be slow at first because the recession had been mild. Instead of cutting back, as they typically do, consumers spent freely during the downturn. In addition, home sales remained strong, and home values appreciated considerably as interest rates fell to very low levels. As such, consumer spending and residential construction could not have been expected to provide their usual strong boost to the economy when it began to recover.

Slow recoveries delay improvement in labor markets. At the end of the recent four quarters of economic growth, nonfarm payroll employment was about 1.0 percent lower (Figure 5). In the earlier post-World War II recoveries, nonfarm payroll employment grew 2.6 percent, on average, in the first four quarters. The only one in which employment fell was the 1991-92 recovery. Fittingly, the current recovery, like its predecessor, has been widely referred to as a "jobless recovery." This moniker might be even more fitting today. Extremely strong productivity growth over the recent four quarters allowed both economic growth and job cuts to be somewhat greater than in the first four quarters of the 1991-92 recovery.

While labor markets were expected to recover slowly, the sharp jump in unemployment to 6 percent and the loss of 40,000 payroll jobs in November really drove home the point. Other recent

economic data have also raised concerns. Output from the nation's factory sector fell from August through October, likely pulling fourth-quarter manufacturing output below the third-quarter level.

Even more worrisome were signs of consumer fatigue. New light vehicle sales plunged in September from the torrid pace set in July and August. The slowdown in vehicle sales was instrumental in pulling total September retail sales below the third quarter average, providing a poor starting point for fourth quarter sales. Furthermore, retail sales were flat in October.

Weak stock markets, corporate accounting scandals, disappointing labor markets, terrorist threats, and risks of war have taken their toll on consumers' morale. In the October surveys of consumer attitudes, both the Conference Board and the University of Michigan indices recorded their lowest values in about nine years. A stock market rally lifted consumers' spirits a bit in November and early December, but overall, consumers were far from upbeat as the all-important Christmas selling season neared.

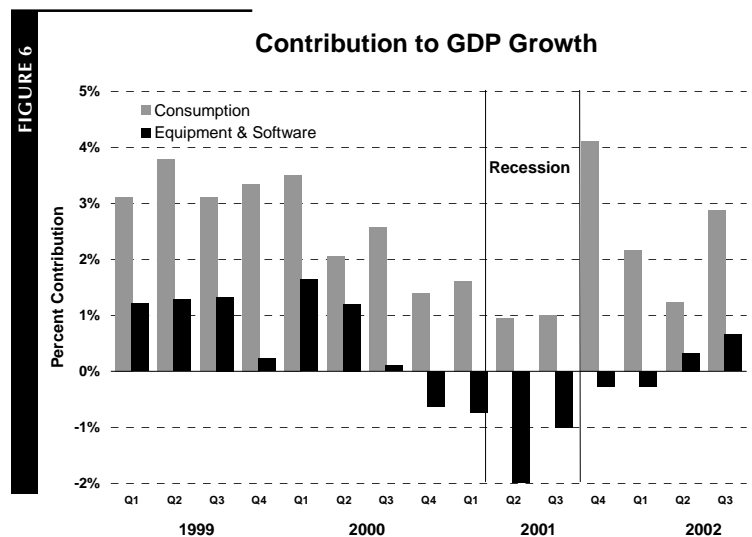
The consumer's mood will be closely watched in 2003. Some deceleration in consumer spending is expected, given how long it has held up. A sharp retrenchment, however, would end the recovery, and that is the major risk to the outlook. As recently as the third quarter, special incentives on light vehicles helped consumer expenditures grow at an annual rate of 4.2 percent. However, lower consumer confidence and the apparent satiation of demand for new light vehicles tempered consumer spending considerably in the fourth quarter. In fact, consumer spending may well have declined in the fourth quarter. If so, it was the first decline since 1993.

Other sectors need to take some of the load off of consumers in 2003 to sustain the recovery. There are some positive signs. Capital equipment spending and inventory investment have ended their dramatic declines that began at the end of 2000. The three quarters of declining national output in 2001 were almost entirely due to lower investment spending, in sharp contrast to the typical post-World War II recession characterized by lower consumption spending followed by reduced investment in inventories, capital equipment, and commercial structures. The mere stabilization of capital equipment spending and inventory levels over the last year allowed economic output to grow over the last four quarters (Figure 6).

Spending on capital equipment and inventory investment should add to economic growth in 2003, but investment in commercial structures will take longer to recover. Improvement will be slow at first, and investment will not reach its previous cyclical high, achieved in 2000, until 2004. Investment in computers is growing rapidly in inflation-adjusted dollars, but nominal spending on computer equipment may not reach 2000 levels until 2005. Since employment in the sector is dependent on nominal spending, high-tech employment and revenue will recover slowly.

Robust federal government spending is also contributing to the recovery. The war on terrorism, homeland security, and increased military preparedness for possible war with Iraq are adding considerably to government purchases. Total government expenditures were up by about 4 percent in 2002. That level of growth will be hard to repeat in 2003, given the budgetary shortfalls of State and local governments in much of the nation. Still, a new federal fiscal stimulus package is looking increasingly likely, and that could offset some of the slowdown in State and local government spending.

Low interest rates, federal tax cuts, increases in government spending, and continued, if somewhat more modest, gains in consumer spending will provide enough stimulus to keep the recovery going in 2003. In many industries, excess capacity will keep firms from adopting generous capital equipment spending plans. Excess capacity, both domestically and abroad, will also keep inflation low.



Growth will be modest during the first half of 2003. Firms will squeeze as much output from their current workers as possible, resulting in negligible employment gains. By the end of next year, however, they will find it necessary to increase hiring in order to meet increased production schedules.

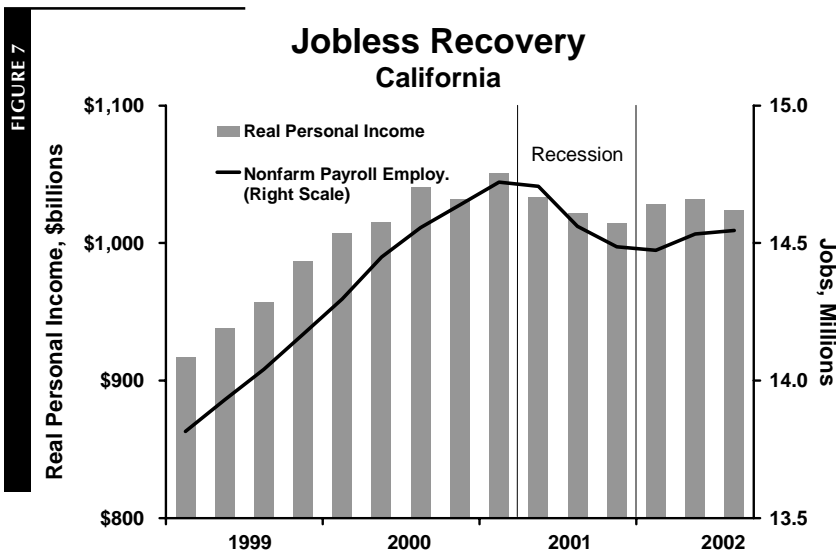
With the memory of corporate scandals fading and profits improving, equity markets rallied in both October and November. Before-tax corporate profits increased in the first two quarters of 2002. The last two quarters of 2002 likely brought further profit gains. A steady improvement in profitability over the forecast horizon will produce double-digit year-over-year profit growth for both 2003 and 2004. Continued low interest rates and higher profits will add up to a much-improved environment for equity markets.

The major risk to the outlook is a significant retrenchment by consumers. Consumers have spent aggressively for many years, and their debt loads have increased considerably. Further, their confidence has waned somewhat as the stock market continues to disappoint and the prospects of war with Iraq remain real. On the other hand, interest rates are very low, and many homeowners are sitting on a considerable amount of home equity.

The primary development that could boost the economy beyond expectations is a significant new federal fiscal stimulus package made up of well-designed, effective tax breaks and targeted increases in government spending. Eliminating the double taxation of dividend income or lowering capital gains tax rates would provide little stimulus to the economy. A new package is not incorporated in the forecast because a specific proposal has not been put forth, let alone been debated in Congress.

## California — Mirroring the National Economy

Like the nation, California is experiencing a jobless recovery. The state economy improved in the first half of 2002, with employment and total state personal income posting gains. The improvement faltered at mid-year, however. The state lost jobs between June and November, and personal income likely fell in the third quarter (Figure 7). In addition, unemployment failed to improve, as the rate varied between 6.4 percent and 6.5 percent from March to November.



Employment grew by about 4,600 jobs per month, on average, in the first 11 months of 2002—a meager amount, but a big improvement over an average monthly loss of 16,100 jobs in 2001. Instrumental in that swing were sharp drops in the rate of job losses in business services and high-tech manufacturing; improved job growth in retail trade, particularly at eating and drinking establishments; and a swing from job losses to job gains in wholesale trade. Employment growth deteriorated in some industries, however. Construction and depository institutions trimmed payrolls in 2002 after expanding them in 2001. Local government and social services added fewer jobs in 2002 than in 2001. And employment in State government, outside of education, fell in 2002.

California's recession was highly concentrated both regionally and industrially. Job losses, net of job gains, in the San Francisco Bay Area—almost all of which were in the San Francisco and San Jose metropolitan areas—greatly exceeded net job losses in the entire state. That is, the rest of the state experienced a net job gain, in total, during the recession. By one measure, the low point for the Bay Area was March 2002, when the number of nonfarm payroll jobs was 4.0 percent lower than a year earlier. In contrast, jobs were 0.5 percent above a year ago in Southern California. The gap in year-over-year job growth between the two regions narrowed considerably, however, as the year progressed. Job losses shrank appreciably in the Bay Area; and by November, nonfarm payroll jobs were only 1.6 percent lower than a year earlier. In Southern California, job gains remained largely unchanged, with nonfarm payroll jobs up 0.4 percent from a year earlier.



No less striking was that three out of every five jobs lost during the recession were in high-tech services and manufacturing. Workers in some high-tech industries were particularly hard hit. One out of every five jobs was lost in communications equipment manufacturing, electronic components and accessories manufacturing, and computer and data processing services. Two out of every five jobs were lost in the information retrieval industry—a sector of computer and data processing services that includes most of the Internet companies.

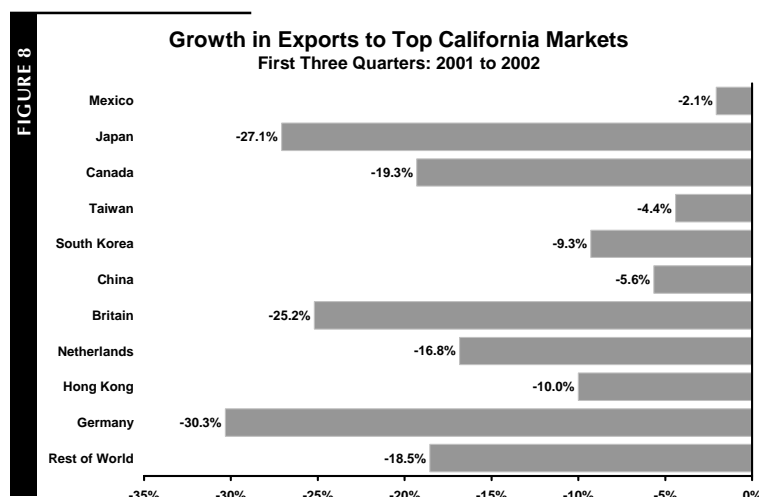
Unemployment rates around the state painted a consistent picture. The San Jose metropolitan area went from having the lowest unemployment rate of the major California metropolitan areas before the recession to having one of the highest unemployment rates after the recession. The swing was not as great for the San Francisco metropolitan area, but after having the second lowest unemployment rate before the recession, its rate more than doubled by the end of the recession. Orange and San Diego Counties, on the other hand, had among the lowest unemployment rates before the recession and the two lowest unemployment rates after the recession.

Gains in state personal income in the first two quarters of 2002 suggest that state economic output grew in the first half of 2002. These gains were a welcome development coming after three consecutive quarterly declines. While the job losses during the recession were about average for a post-World War II recession, the decline in personal income, when adjusted for inflation, was second only to the decline in the long and deep 1990-1993 recession. The wide disparity between job losses and decline in personal income in the recent recession was due to the sharp decline in employee bonus and stock option income brought about by the collapse of the stock market.

Given how modest the recovery has been so far, California housing markets were surprisingly strong in 2002. In the first 10 months of 2002, sales of existing, single-family homes were up 13 percent from a year earlier, according to the California Association of Realtors. The year-over-year increase in the median price of these homes ranged from 17 percent to 25 percent over the 10 months. The median price breached \$300,000 for the first time in March; by October, it was \$334,000. Extremely low mortgage rates were instrumental in this high level of activity and price appreciation and, most likely, a concurrent pick-up in building. The number of permits for residential units exceeded year-earlier levels by 11 percent in the first 10 months of the year.

Commercial real estate markets did not fare as well. Nonresidential construction fell sharply for the second consecutive year in 2002. Office vacancy increased in most California metropolitan areas in the third quarter of 2002, both from quarter-ago levels and year-ago levels. The San Jose and San Francisco metropolitan areas stood out for having office vacancy rates considerably above the national average for metropolitan areas. San Jose also had the largest increase in office vacancy in the third quarter of the 50 markets surveyed by CB Richard Ellis. Sacramento and San Diego shone, however, with office vacancy rates among the lowest in the nation. Industrial vacancy was less of a problem despite vacancy being slightly above the national average in San Francisco and considerably above the national average in Sacramento in the third quarter. Vacancy rates in San Diego and Los Angeles were well below the national average even after San Diego's sizable gain in vacancy in the third quarter.

Declining exports of California-made merchandise contributed to the state economy's sluggishness in 2002. Exports were 16 percent below year-earlier levels in the first three quarters. A precipitous drop in exports to Japan accounted for 24 percent of the total decline in state exports (Figure 8). Lower exports to Canada, the United Kingdom, Germany, and Singapore accounted for another 36 percent of the overall drop. Exports to Mexico, the leading destination for California-made merchandise, held up relatively well, slipping only 2 percent.



More is at work in California's export slide than weak economies of major trading partners. While the German and Japanese economies are among the weakest of the major developed economies, the Canadian economy is doing very well, and the economies of the United Kingdom and Singapore are quite strong. The worldwide high-tech recession has been a bigger factor in California's sagging exports. Computer and electronic products, which made up 44 percent of the state's exports in the first three quarters of 2002, accounted for two thirds of the overall decline in exports.

One of California's largest services exports—tourism—has yet to recover to pre-September 11 levels. The “drive-to” markets, like San Diego, are doing quite well, but “fly-to” markets that depend on out-of-state and foreign visitors continue to struggle. More intensive airport security checks appear to have convinced some vacationers to stay closer to home. In addition, the recession has cut business travel, especially to the state's high-tech centers. Hotel and motel occupancy rates have come only part of the way back to pre-September 11 levels, and average room rates remain considerably below year-ago levels in many markets.

The California economy entered 2003 with little momentum. The state's fledgling recovery faltered in the second half of 2002. Labor markets are weak with no signs that significant improvement is imminent. The state economy appears to be tracking the national economy quite closely as it has for most of the post-World War II period, with the notable exception of the first half of the 1990s, when a sharp contraction of the state's aerospace sector helped push the state economy into a long, steep decline. The outlook for the California economy in 2003 depends heavily on the fate

of the national economy. Near-historic low interest rates should help the state economy in 2003, as should continued strong spending on national defense and homeland security. Federal fiscal stimulus will be even stronger if the nation goes to war with Iraq. On balance, the outlook for the California economy is for slow growth in 2003 and moderate growth in 2004 (Figure 9). Unemployment will likely increase somewhat in 2003 before falling in 2004. Personal income will grow in 2003 and 2004, but not as quickly as in past recoveries. The main risk from the outlook for the state economy is the same as that for the national economy—a retrenchment by consumers. In addition, the state is more at risk from a delay in the high-tech recovery.

### Selected Economic Data for 2002, 2003, and 2004

	2002	Forecast	
		2003	2004
United States			
Real gross domestic product (1996 dollar, percent change)	2.3	2.5	3.5
Personal consumption expenditures	2.9	2.1	3.0
Gross private domestic investment	0.7	3.5	7.3
Government purchases of goods and services	4.2	2.6	1.6
GDP deflator (1996=100, percent change)	1.2	2.0	2.3
GDP (current dollar, percent change)	3.5	4.6	5.9
Federal funds rate (percent)	1.67	1.49	3.27
Personal income (percent change)	3.0	4.1	5.4
Corporate profits before taxes (percent change)	-0.9	15.2	9.3
Nonfarm wage and salary employment (millions)	130.8	132.0	134.8
(percent change)	-0.8	0.9	2.1
Unemployment rate (percent)	5.8	6.0	5.5
Housing starts (millions)	1.69	1.57	1.66
(percent change)	5.4	-6.9	5.4
New car sales (millions)	8.0	7.7	7.3
(percent change)	-4.8	-4.4	-4.8
Consumer price index (1982-84=100)	179.9	184.5	188.9
(percent change)	1.6	2.5	2.4
California			
Civilian labor force (thousands)	17,576	17,715	18,014
(percent change)	1.2	0.8	1.7
Civilian employment (thousands)	16,443	16,560	16,894
(percent change)	0.1	0.7	2.0
Unemployment (thousands)	1,133	1,155	1,120
(percent change)	22.1	1.9	-3.0
Unemployment rate (percent)	6.4	6.5	6.2
Nonfarm wage and salary employment (thousands)	14,521	14,623	14,928
(percent change)	-0.7	0.7	2.1
Personal income (billions)	\$1,138.7	\$1,176.0	\$1,238.4
(percent change)	0.9	3.3	5.3
Housing units authorized (thousands)	159	157	162
(percent change)	6.5	-1.3	3.2
Corporate profits before taxes (billions)	\$91.8	\$99.9	\$109.6
(percent change)	-0.3	8.9	9.7
New auto registrations (thousands)	1,722	1,733	1,723
(percent change)	-2.3	0.6	-0.6
Total taxable sales (billions)	\$432.0	\$447.0	\$472.0
(percent change)	-2.2	3.4	5.6
Consumer price index (1982-84=100)	186.2	191.5	197.6
(percent change)	2.5	2.8	3.2

Note: Percentage changes calculated from unrounded data.



# Select Indicators

## Employment

### EMPLOYMENT (Seasonally adjusted)

	2002				2001	Yr-Over-Yr % Change
	Dec	Nov	Oct	Sep	Dec	
Civilian employment (000)	16,446	16,503	16,491	16,428	16,415	0.2
Unemployment (000)	1,165	1,156	1,143	1,129	1,068	9.1
Unemployment rate	6.6	6.5	6.5	6.4	6.1	--
Nonagricultural wage and salary employment (000)	14,630.4	14,645.8	14,657.5	14,645.6	14,656.2	-0.2
Mining	23.6	23.5	23.5	23.3	24.1	-2.1
Construction	749.8	750.4	753.1	758.0	761.1	-1.5
Manufacturing	1,784.1	1,786.2	1,794.2	1,803.2	1,843.4	-3.2
Durable	1,103.7	1,105.9	1,112.0	1,115.8	1,152.6	-4.2
High technology a/	451.4	452.2	456.1	459.5	486.1	-7.1
Computer and office equipment	84.4	84.6	85.0	85.2	89.0	-5.2
Communications equipment	40.1	40.1	40.3	40.5	42.9	-6.5
Electronic components	135.2	135.8	137.6	139.1	149.4	-9.5
Aircraft and parts	64.2	64.1	64.3	64.2	69.0	-7.0
Missiles, spacecraft, and parts	18.4	18.6	18.7	18.9	19.6	-6.1
Search and navigation equipment	44.9	45.0	45.2	45.7	48.1	-6.7
Measuring and controlling devices	64.2	64.0	65.0	65.9	68.1	-5.7
Nondurable	680.4	680.3	682.2	687.4	690.8	-1.5
Transportation and public utilities	710.1	713.1	714.9	712.9	734.6	-3.3
Trade	3,360.0	3,370.4	3,372.8	3,370.9	3,336.5	0.7
Wholesale	804.8	810.8	812.1	811.5	805.2	0.0
Retail	2,555.2	2,559.6	2,560.7	2,559.4	2,531.3	0.9
Finance, insurance, and real estate	850.8	851.0	848.5	844.9	851.0	0.0
Services e/	4,682.4	4,680.5	4,683.6	4,678.9	4,686.6	-0.1
Business services	1,245.0	1,244.5	1,246.0	1,252.4	1,279.8	-2.7
Motion pictures	169.8	170.1	173.7	173.5	176.7	-3.9
Amusement and recreation services	218.8	220.1	219.9	222.5	218.4	0.2
Engineering and management consulting	514.1	511.7	510.2	510.3	510.3	0.7
Government	2,469.6	2,470.7	2,466.9	2,453.5	2,418.9	2.1
Federal	260.4	261.4	260.1	256.7	254.5	2.3
State and local	2,209.2	2,209.3	2,206.8	2,196.8	2,164.4	2.1

## Hours & Earnings

### HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)

Average weekly hours	41.1	40.7	40.6	40.9	41.5	-1.0
Average weekly earnings	\$626.78	\$616.20	\$612.25	\$615.14	\$621.26	0.9
Average hourly earnings	\$15.25	\$15.14	\$15.08	\$15.04	\$14.97	1.9

## Consumer Prices

### CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)

All Urban Consumers Series						
California Average	187.2	n.a.	187.5	n.a.	181.8	3.0
San Francisco CMSA	193.2	n.a.	194.3	n.a.	190.6	1.4
Los Angeles CMSA	183.7	184.0	183.7	183.4	177.1	3.7
Urban Wage Earners and Clerical Workers Series						
California Average	180.4	n.a.	180.4	n.a.	174.6	3.3
San Francisco CMSA	189.6	n.a.	190.0	n.a.	186.5	1.7
Los Angeles CMSA	176.7	177.0	176.5	176.3	169.7	4.1

## Construction

### CONSTRUCTION

Private residential housing units authorized (000) b/	141.4	183.6	222.6	176.0	164.4	-14.0
Single units	115.7	127.2	153.1	126.3	111.0	4.2
Multiple units	25.6	56.5	69.5	49.7	53.4	-52.0
Residential building authorized valuation (millions) c/	\$2,370	\$3,260	\$3,526	\$2,827	\$2,517	-5.9
Nonresidential building authorized valuation (millions) c/	\$1,349	\$1,278	\$1,151	\$1,082	\$1,204	12.0
Nonresidential building authorized valuation (millions) d/	\$1,217	\$1,109	\$1,255	\$1,175	\$1,079	12.7
Commercial	605	408	342	402	288	110.1
Industrial	94	98	156	98	161	-41.8
Other	155	213	269	261	204	-24.1
Alterations and additions	363	389	488	414	426	-14.8

## Auto Sales

### AUTO SALES (Seasonally adjusted)

New auto registrations (number)	133,894	136,018	149,065	149,694	140,439	-4.7
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a/ Based on the 1987 SIC codes. These values are not seasonally adjusted.

b/ Seasonally adjusted at annual rate

c/ Seasonally adjusted

d/ Not seasonally adjusted

e/ Only select industry components are shown therefore will not add to total.

n.a. Not available

## Select Indicators

Continued

### VACANCY RATES FOR FOURTH QUARTER 2002 (Percent)

	Office			Industrial
	<u>Downtown</u>	<u>Suburban</u>	<u>Total</u>	
Northern and Central California:				
Oakland-East Bay	18.0	14.4	15.1	--
Sacramento	7.3	11.5	10.5	15.9
San Francisco	18.3	24.4	20.1	12.6
San Jose	19.1	22.1	21.5	--
Southern California:				
Los Angeles Metro	16.7	11.5	12.4	9.2
Orange County	--	16.3	16.3	--
San Diego	10.5	11.9	11.6	9.3
Ventura County	--	13.8	13.8	--
National Average	13.5	16.8	15.6	11.5

### MEDIAN PRICE OF EXISTING SINGLE-FAMILY HOMES

2001				2002			
Jan	\$244,110	Jul	267,520	Jan	\$289,520	Jul	323,700
Feb	241,690	Aug	277,430	Feb	298,310	Aug	332,970
Mar	257,550	Sep	275,620	Mar	305,970	Sep	322,480
Apr	255,310	Oct	263,020	Apr	317,100	Oct	322,730
May	255,860	Nov	274,680	May	319,570	Nov	327,500
Jun	267,410	Dec	281,330	Jun	323,300	Dec	338,110

# Leading Indicators/<sup>A</sup>

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
1997	Jan	4.7	41.5	66,099	4,693	90.5
	Feb	4.8	41.8	56,057	4,357	122.6
	Mar	5.1	42.2	58,697	3,571	98.7
	Apr	5.0	41.9	59,817	3,948	102.4
	May	4.9	41.8	59,392	4,479	108.2
	Jun	4.9	41.7	63,425	4,375	108.4
	Jul	4.9	41.7	62,005	4,751	112.3
	Aug	5.1	42.0	63,337	4,245	114.3
	Sep	5.1	42.0	64,162	4,755	121.2
	Oct	4.9	42.0	61,530	4,733	127.9
	Nov	5.0	42.2	58,333	4,410	117.1
	Dec	5.2	42.2	58,721	4,853	108.8
1998	Jan	5.1	42.2	56,302	4,675	105.8
	Feb	5.0	41.9	60,117	4,581	111.7
	Mar	4.9	41.9	58,716	4,609	128.8
	Apr	4.5	41.1	57,976	5,081	116.6
	May	4.7	41.8	58,946	4,487	121.6
	Jun	4.8	41.9	54,135	4,725	142.9
	Jul	4.7	41.9	54,275	4,857	117.5
	Aug	4.6	41.7	52,786	4,386	137.2
	Sep	4.5	41.4	50,763	3,757	125.9
	Oct	4.6	41.8	52,856	4,682	137.2
	Nov	4.6	41.7	54,747	4,685	139.9
	Dec	4.6	41.8	53,745	4,680	126.8
1999	Jan	4.7	42.3	52,152	4,875	138.3
	Feb	4.7	41.9	52,800	5,119	133.9
	Mar	4.6	42.0	53,077	6,033	138.1
	Apr	4.7	41.9	53,310	5,082	133.2
	May	4.8	42.0	50,340	5,238	132.6
	Jun	4.6	41.9	51,519	5,569	158.9
	Jul	4.5	41.7	51,002	5,353	147.0
	Aug	4.6	41.5	51,037	5,808	133.2
	Sep	4.5	41.3	50,218	5,906	138.8
	Oct	4.7	41.6	49,393	5,614	131.9
	Nov	4.8	41.5	51,634	5,874	141.2
	Dec	4.9	41.5	44,723	6,674	150.3
2000	Jan	5.0	41.7	50,876	6,400	153.9
	Feb	4.9	41.4	49,482	6,930	151.3
	Mar	4.7	41.4	47,312	8,331	157.6
	Apr	5.2	41.9	45,719	7,557	125.2
	May	5.0	41.6	47,828	6,585	137.7
	Jun	5.0	41.7	49,339	7,330	180.7
	Jul	5.1	41.7	48,033	7,325	132.5
	Aug	5.0	41.7	47,831	7,015	150.9
	Sep	5.0	41.9	47,537	7,268	143.4
	Oct	5.1	41.8	49,454	7,236	136.1
	Nov	4.9	41.6	48,436	7,345	160.3
	Dec	4.8	41.5	52,027	6,494	157.0
2001	Jan	4.5	41.1	48,238	7,344	203.6
	Feb	4.6	41.3	49,840	6,441	141.8
	Mar	4.4	41.1	53,235	6,469	146.6
	Apr	3.9	40.5	55,088	6,227	149.0
	May	4.3	41.0	55,953	6,785	153.9
	Jun	4.3	40.9	54,962	6,413	138.0
	Jul	4.3	41.1	55,836	6,495	129.4
	Aug	4.4	41.3	57,578	7,267	155.6
	Sep	4.3	41.2	60,049	6,213	112.3
	Oct	3.9	40.7	65,425	7,171	151.8
	Nov	3.9	40.7	56,454	7,276	141.6
	Dec	4.0	40.8	46,950	6,957	164.4
2002	Jan	4.0	40.7	69,037	7,019	157.1
	Feb	4.2	41.1	53,411	6,871	171.3
	Mar	4.3	41.2	59,870	7,199	143.8
	Apr	4.3	41.1	67,385	7,324	158.6
	May	4.4	41.1	60,268	8,671	155.8
	Jun	4.3	41.0	59,416	6,985	137.9
	Jul	4.1	40.4	63,359	7,188	175.8
	Aug	4.2	40.8	61,672	7,574	157.3
	Sep	4.0	40.8	61,781	7,814	176.0
	Oct	3.7	40.4	64,707	n.a.	222.6
	Nov	3.7	40.4	56,294	n.a.	183.6
	Dec	3.8	40.4	57,268	n.a.	141.4

a/ Seasonally adjusted by the California Department of Finance.  
n.a. Not available

# Coincident Indicators/<sup>A</sup>

## Employment, Unemployment

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
1998	Jan	13,407	1,951	6.1	336
	Feb	13,423	1,954	6.1	364
	Mar	13,445	1,956	6.0	366
	Apr	13,486	1,958	6.0	368
	May	13,539	1,964	6.0	355
	Jun	13,584	1,962	5.9	353
	Jul	13,602	1,955	5.9	351
	Aug	13,662	1,954	5.9	356
	Sep	13,709	1,953	5.9	356
	Oct	13,726	1,944	5.8	333
	Nov	13,770	1,936	5.8	352
	Dec	13,788	1,928	5.8	368
1999	Jan	13,783	1,921	5.6	355
	Feb	13,821	1,919	5.6	368
	Mar	13,841	1,920	5.5	375
	Apr	13,901	1,921	5.4	364
	May	13,929	1,920	5.3	373
	Jun	13,961	1,921	5.2	376
	Jul	14,014	1,925	5.1	349
	Aug	14,043	1,923	5.0	352
	Sep	14,064	1,927	5.0	367
	Oct	14,137	1,931	4.9	345
	Nov	14,174	1,929	4.9	344
	Dec	14,196	1,926	5.0	342
2000	Jan	14,249	1,928	5.0	357
	Feb	14,300	1,929	5.0	346
	Mar	14,342	1,932	5.1	353
	Apr	14,391	1,939	5.0	338
	May	14,460	1,944	5.1	326
	Jun	14,498	1,952	5.1	333
	Jul	14,524	1,951	5.1	334
	Aug	14,559	1,954	5.0	335
	Sep	14,587	1,957	4.9	316
	Oct	14,603	1,959	4.8	333
	Nov	14,631	1,963	4.8	343
	Dec	14,683	1,969	4.7	319
2001	Jan	14,729	1,971	4.7	351
	Feb	14,718	1,964	4.7	354
	Mar	14,719	1,957	4.8	360
	Apr	14,721	1,934	5.0	387
	May	14,710	1,921	5.1	414
	Jun	14,689	1,904	5.2	424
	Jul	14,702	1,897	5.3	450
	Aug	14,721	1,884	5.5	472
	Sep	14,701	1,873	5.7	483
	Oct	14,689	1,859	5.9	541
	Nov	14,644	1,848	6.1	510
	Dec	14,656	1,843	6.1	510
2002	Jan	14,672	1,843	6.4	505
	Feb	14,665	1,840	6.2	533
	Mar	14,672	1,838	6.5	516
	Apr	14,668	1,831	6.5	542
	May	14,655	1,823	6.4	557
	Jun	14,659	1,824	6.5	546
	Jul	14,648	1,814	6.4	558
	Aug	14,663	1,807	6.4	531
	Sep	14,646	1,803	6.4	546
	Oct	14,658	1,794	6.5	563
	Nov	14,646	1,786	6.5	507
	Dec	14,630	1,784	6.6	506

## Income, Wages, Taxable Sales

		Personal Income (\$ millions)	Wages & Salaries from Mining, Construction and Manufacturing (\$ millions)	Taxable Sales (\$ millions)
1998	Qtr I	904,098	107,947	87,246
	Qtr II	921,594	110,725	89,126
	Qtr III	936,863	112,581	90,733
	Qtr IV	963,701	118,465	91,120
1999	Qtr I	952,645	116,442	93,739
	Qtr II	979,378	120,132	97,146
	Qtr III	1,004,877	127,321	99,747
	Qtr IV	1,042,548	132,822	103,096
2000	Qtr I	1,072,564	144,059	107,393
	Qtr II	1,087,119	140,913	109,940
	Qtr III	1,120,616	149,186	111,702
	Qtr IV	1,117,199	143,587	112,045
2001	Qtr I	1,146,375	139,703	111,989
	Qtr II	1,132,951	136,289	111,275
	Qtr III	1,119,507	129,823	108,517
	Qtr IV	1,114,191	127,732	106,298
2002	Qtr I	1,132,615	127,806	106,974
	Qtr II	1,143,717	125,382	106,323
	Qtr III	1,142,975	123,476	109,540
	Qtr IV	1,138,458	122,389	n.a.

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

n.a. Not available

## Other Indicators

DOD Prime Contracts a/						Foreign Trade through California Ports			
	\$ millions	% of U.S.		\$ millions	% of U.S.	\$ millions		\$ millions	
1981-82	22,685	21.8	1991-92	23,843	21.2	2001		2002	
1982-83	26,387	22.2	1992-93	22,952	20.1	Jan	31,457	Jan	24,205
1983-84	28,520	23.0	1993-94	22,573	20.5	Feb	27,796	Feb	24,197
1984-85	29,115	20.8	1994-95	18,277	16.8	Mar	31,866	Mar	26,263
1985-86	27,738	20.4	1995-96	18,230	16.7	Apr	28,116	Apr	27,081
1986-87	24,515	18.4	1996-97	18,477	17.3	May	27,833	May	27,382
1987-88	23,458	18.7	1997-98	17,401	15.9	Jun	28,995	Jun	28,972
1988-89	23,125	19.3	1998-99	17,372	15.1	Jul	28,097	Jul	28,333
1989-90	22,312	18.4	1999-00	18,100	14.7	Aug	28,565	Aug	29,634
1990-91	24,265	19.5	2000-01	19,939	13.6	Sep	27,219	Sep	28,764
						Oct	29,570	Oct	27,547
						Nov	26,499	Nov	n.a.
						Dec	25,184	Dec	n.a.

a/ U.S. fiscal year: October through September  
n.a. Not available

## Economic Indicator Charts

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

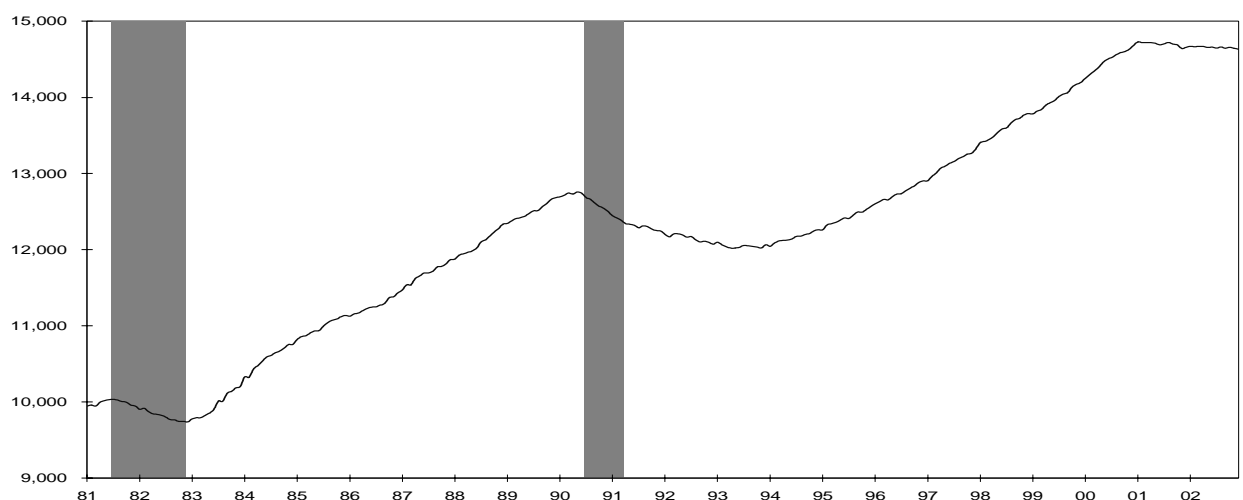
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-11 Arima program. Persons interested in a detailed description of this method are referred to Statistics Canada, *The X-11 Arima Seasonal Adjustment Method* (Catalog No. 12-564E, February 1980).

Under the X-11 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

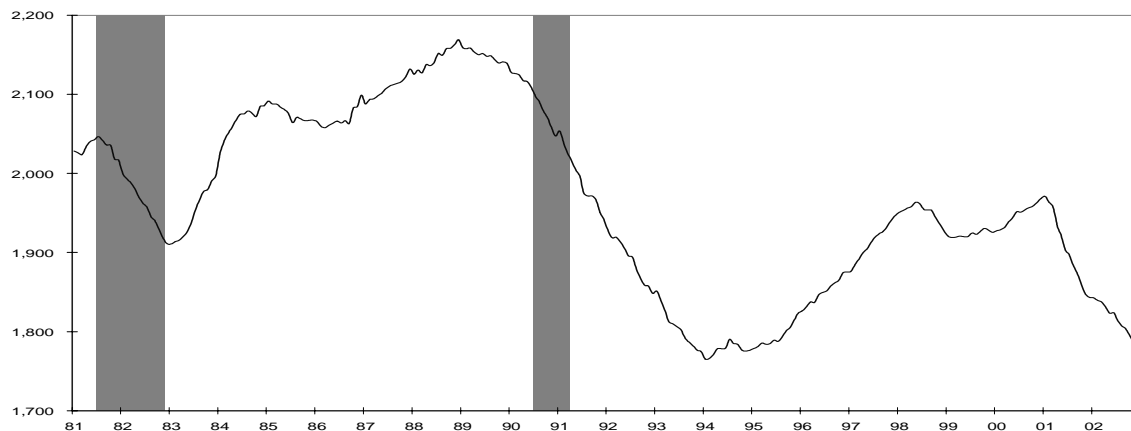
This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

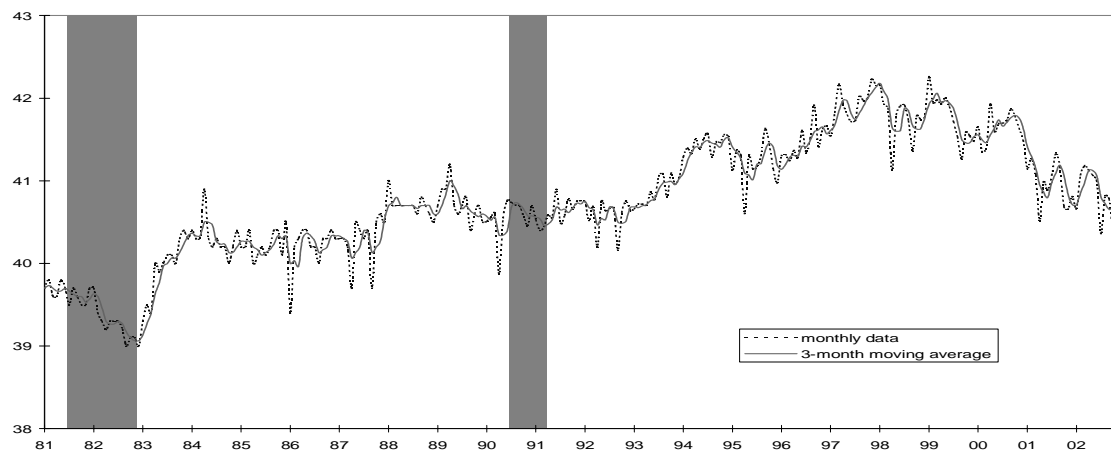
**Nonagricultural Employment**  
(Thousands, Seasonally Adjusted)



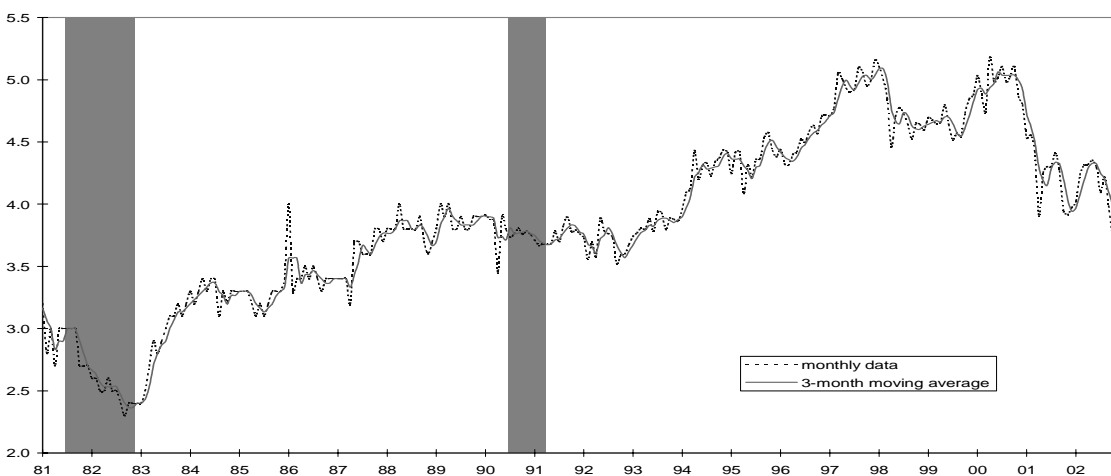
**Manufacturing  
Employment**  
(Thousands,  
Seasonally Adjusted)



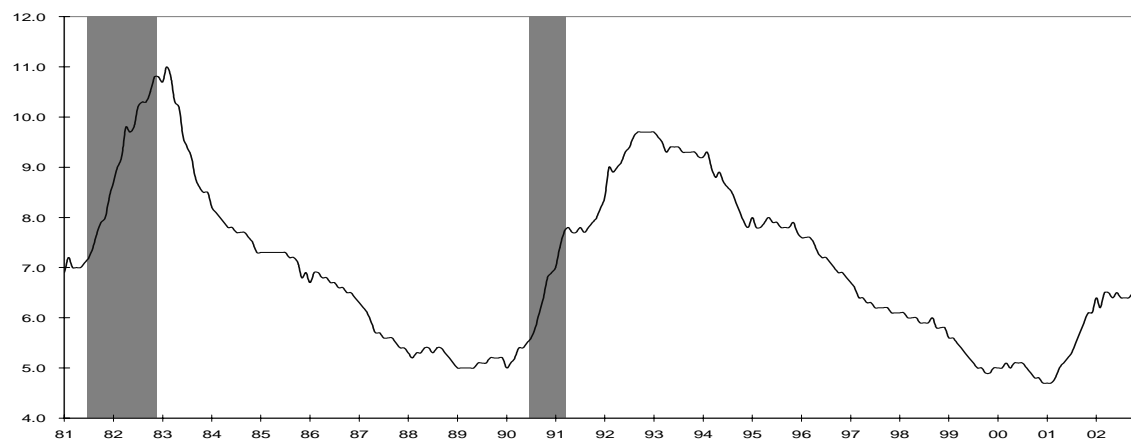
**Average  
Weekly Hours,  
Manufacturing**  
(Seasonally Adjusted)



**Average  
Overtime Hours,  
Manufacturing**  
(Seasonally Adjusted)



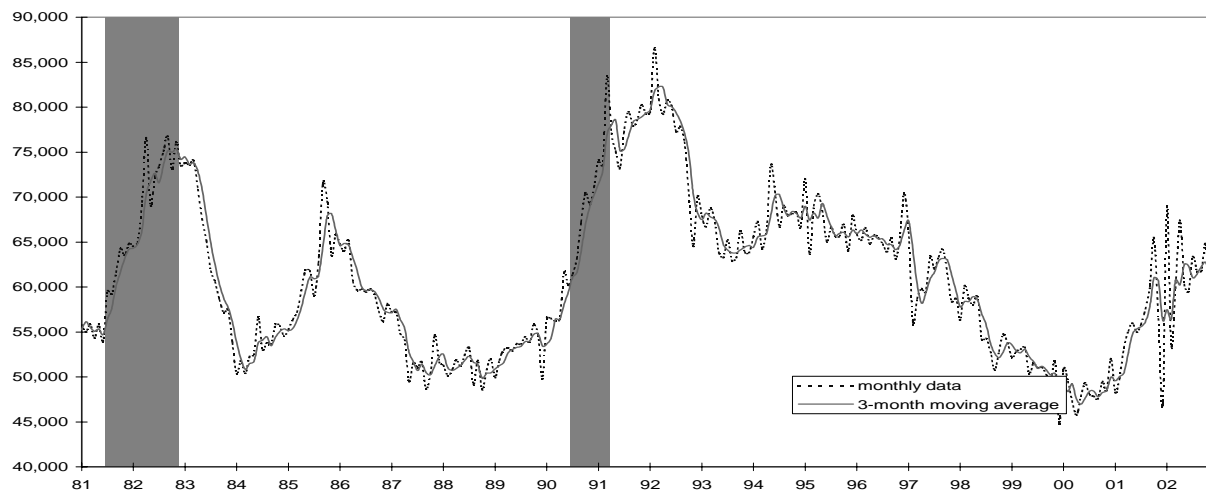
**Unemployment  
Rate**  
(Percent)





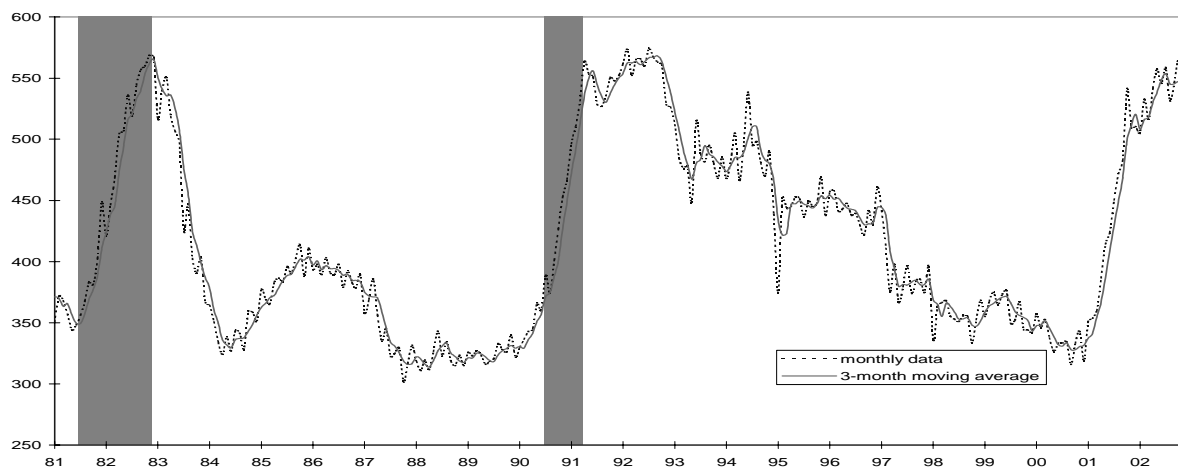
## Initial & Transitional Claims for Unemployment Insurance

(Weekly Average, Seasonally Adjusted)



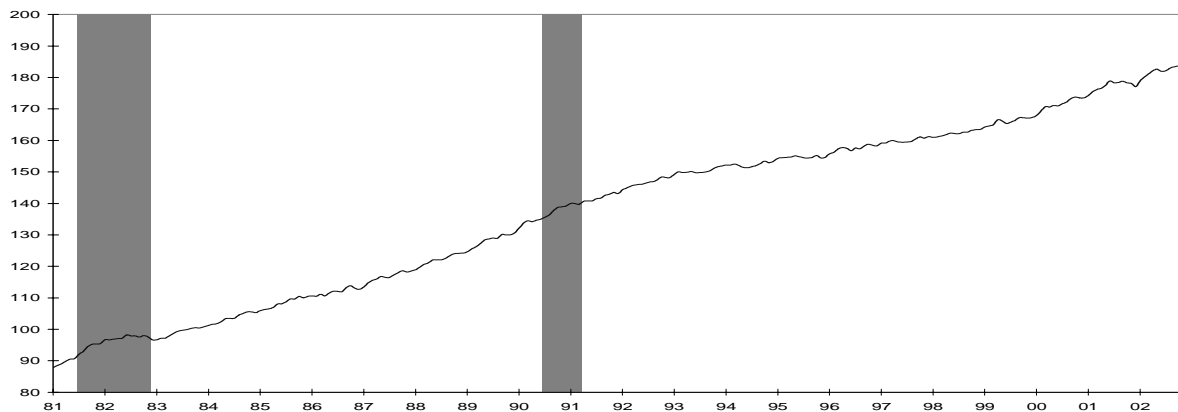
## Unemployment, Average Weeks Claimed

(Thousands, Seasonally Adjusted)



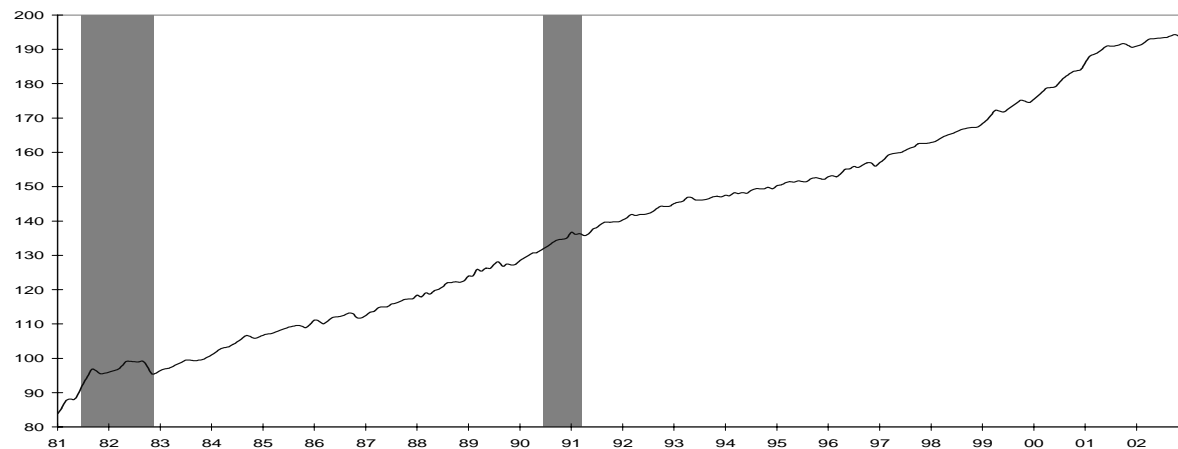
## Consumer Price Index, Los Angeles

(1982-84=100)



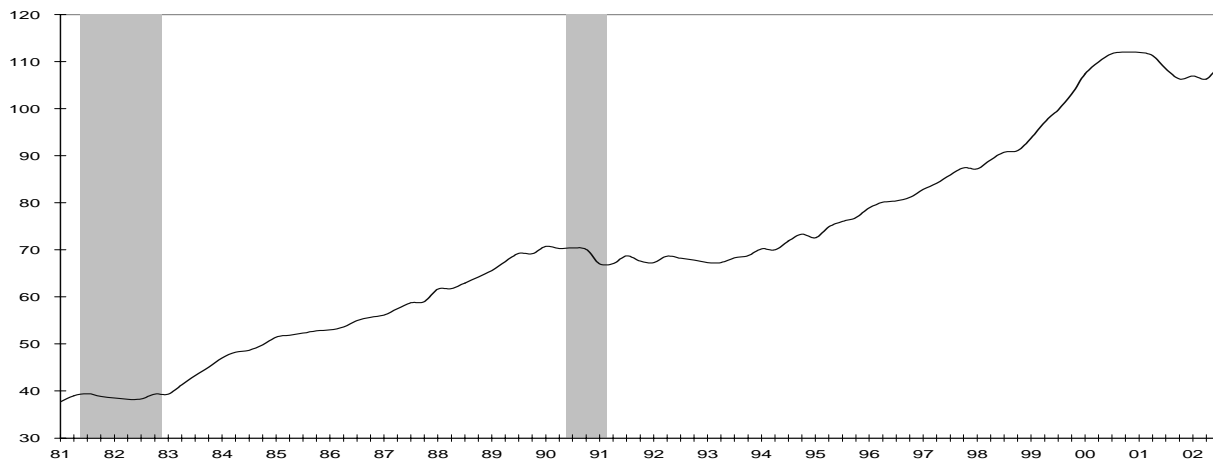
## Consumer Price Index, San Francisco

(1982-84=100)



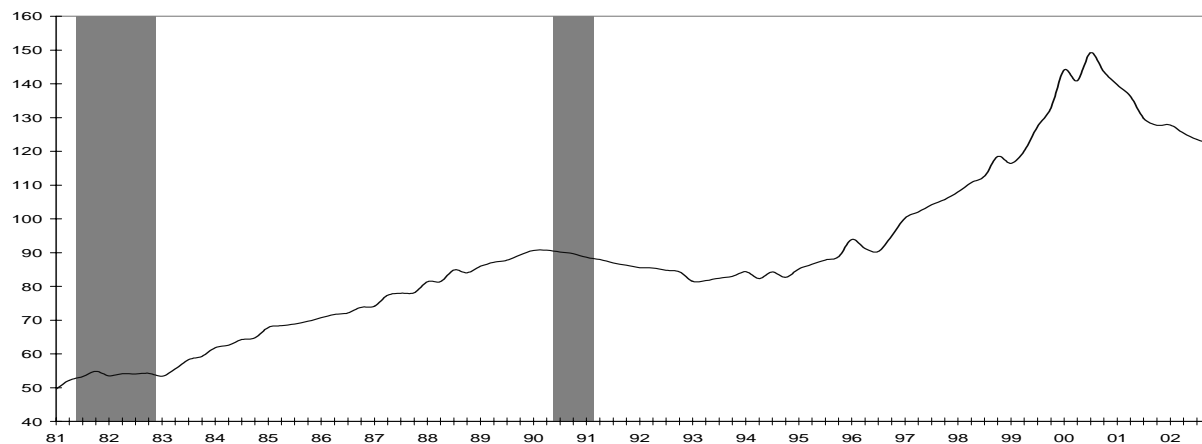
## Taxable Sales

(Dollars in Billions,  
Seasonally Adjusted)



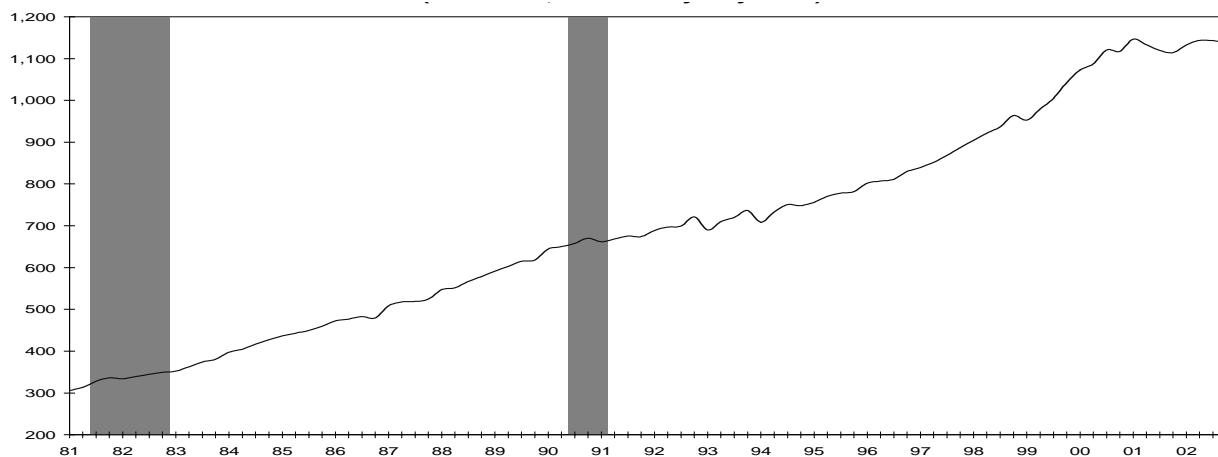
## Wages and Salaries in Mining, Construction and Manufacturing

(Dollars in Billions,  
Seasonally Adjusted)



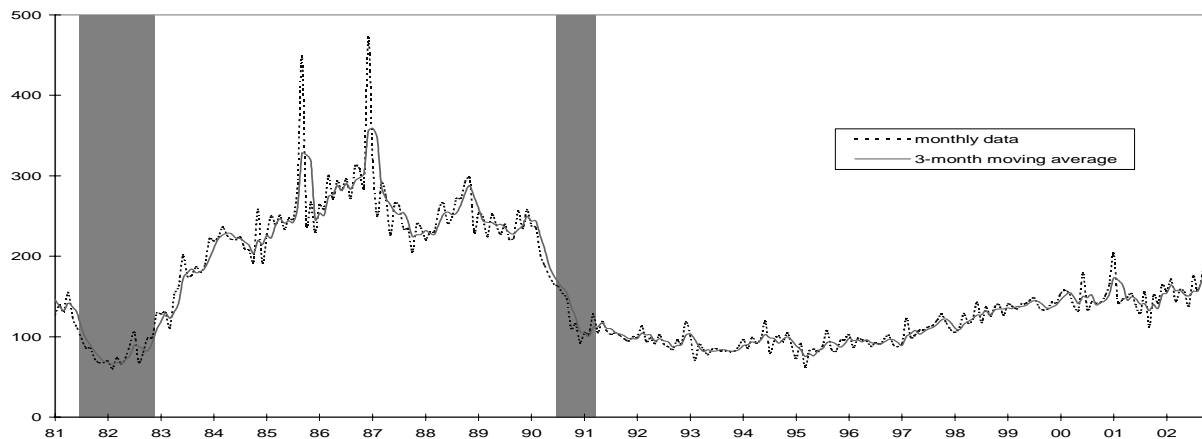
## Personal Income

(Dollars in Billions,  
Seasonally Adjusted)



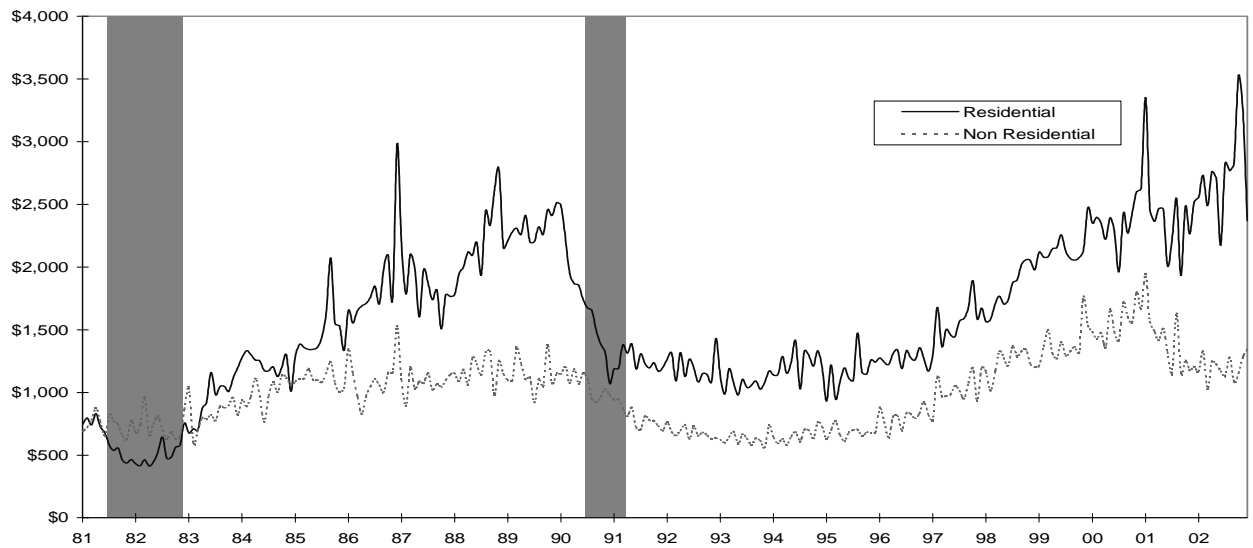
## New Housing Units Authorized By Building Permits

(Thousands, Seasonally Adjusted at Annual Rate)



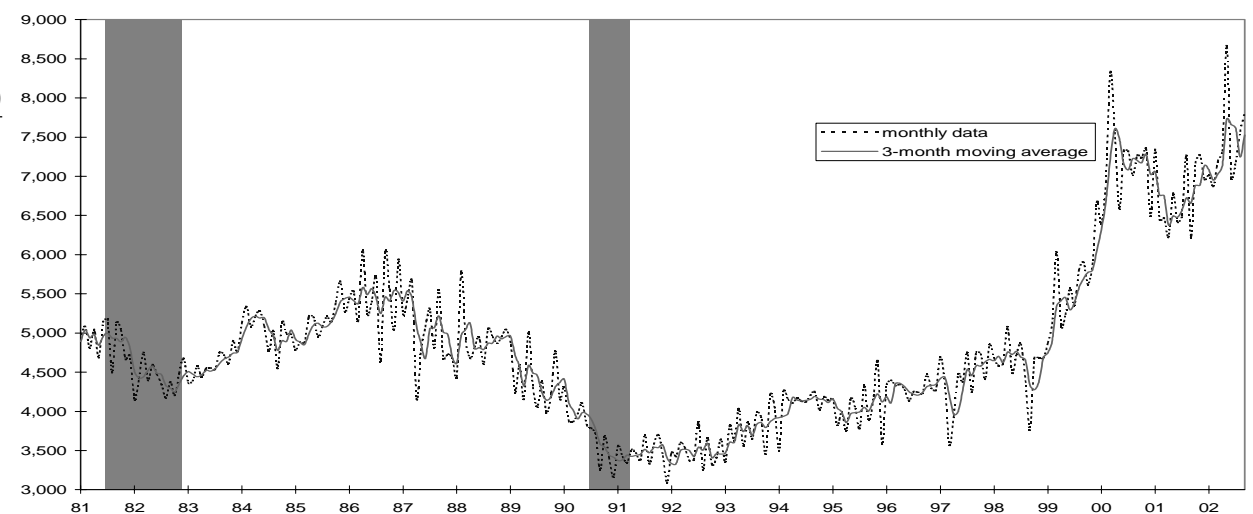
## Residential & Nonresidential Building Permit Valuation

(Dollars in Millions, Seasonally Adjusted)



## New Business Incorporations

(Seasonally Adjusted)



## Chronology

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of event dating back to 1956 is available at the Department's home page at: <http://www.dof.ca.gov/>

**2000**

**August -**

World oil prices are rising because of increasingly tight supplies. U.S. inventories are at their lowest level since 1976 and crude prices have increased significantly contributing to costlier gasoline and heating oil.

**September 19**

China was granted permanent normal trade relations status with the U.S.

**September 28**

GDP growth rate for 2<sup>nd</sup> quarter was revised to 5.6 percent.

**October 18**

Social Security and Supplemental Security income payments will increase by 3.5 percent in 2001, the biggest in almost a decade.

**October 31**

OPEC plans to increase oil production by 500,000 barrels per day making it the fourth increase this year.

**December 21**

GDP for 3<sup>rd</sup> quarter grew at an annual rate of 2.2 percent.

<b>January 1</b>	California's minimum wage raised from \$5.75 to \$6.25. The California state rate portion of the total 7.25% sales tax rate was reduced by .25%, to a total tax rate of 7.00%.
<b>January 3</b>	Federal funds rate reduced to 6.0 percent from 6.5 percent. Discount rate reduced to 5.5 percent from 6.0 percent.
<b>January 17</b>	OPEC to cut oil production by 1.5 million barrels a day, or 5.6 percent of current output.
<b>January 31</b>	Federal funds rate reduced from 6.0 percent to 5.5 percent. Discount rate reduced from 5.5 percent to 5.0 percent.
<b>March 19</b>	OPEC to cut oil production by 1 million barrels a day.
<b>March 19-20</b>	California suffered rolling blackouts.
<b>March 20</b>	Federal funds rate reduced from 5.5 percent to 5.0 percent. Discount rate reduced from 5.0 percent to 4.5 percent.
<b>March 27</b>	California regulators approved retail electric rate increase.
<b>March 29</b>	GDP grew at an annual rate of 1 percent in the fourth quarter, the lowest in more than 5 years.
<b>April 6</b>	PG&E utility unit files for bankruptcy.
<b>April 18</b>	Federal funds rate reduced from 5.0 percent to 4.5 percent. Discount rate reduced from 4.5 percent to 4.0 percent.
<b>April 23</b>	A Tosco refinery explosion pushed gasoline prices to near record highs.
<b>April 24</b>	Standard & Poors lowered California's bond rating from AA to A+
<b>April 27</b>	GDP grew at an annual rate of 2 percent in the first quarter.
<b>May 7-8</b>	California hit by rolling blackouts.
<b>May 15</b>	Federal funds rate reduced from 4.5 percent to 4.0 percent. Discount rate reduced from 4.0 percent to 3.5 percent.
<b>June 7</b>	Federal tax cut was signed into law.
<b>June 18</b>	The Federal Energy Regulatory Commission adopted a price "mitigation" plan designed to reduce spikes in wholesale electricity prices in California and other Western states.
<b>June 27</b>	Federal funds rate reduced from 4.00 percent to 3.75 percent. Discount rate reduced from 3.50 percent to 3.25 percent.
<b>June 29</b>	First quarter GDP growth rate revised to 1.2 percent.
<b>August 21</b>	Federal funds rate reduced from 3.75 percent to 3.50 percent. Discount rate reduced from 3.25 percent to 3.00 percent.
<b>August 29</b>	Second quarter GDP grew at a 0.2 percent annual rate. Discount rate reduced from 3.25 percent to 3.00 percent.
<b>August 29</b>	Second quarter GDP grew at a 0.2 percent annual rate.
<b>September 11</b>	Terrorists attack World Trade Center and the Pentagon.
<b>September 11-14</b>	U.S. stock trading halts.
<b>September 17</b>	Federal funds rate reduced from 3.50 percent to 3.00 percent. Discount rate reduced from 3.00 percent to 2.50 percent. Dow Jones Industrials record biggest point drop in history, falling 684.41.
<b>October 2</b>	Federal funds rate reduced from 3.00 percent to 2.50 percent.

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**2001**

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	Discount rate reduced from 2.50 percent to 2.00 percent.
<b>October 26</b>	Lockheed Martin Corporation awarded defense contract.
<b>November 6</b>	Federal funds rate reduced from 2.50 percent to 2.00 percent. Discount rate reduced from 2.00 percent to 1.50 percent.
<b>November 26</b>	Recession in the US began in March 2001, according to NBER.
<b>December 2</b>	Enron filed for bankruptcy protection.
<b>December 11</b>	Federal funds rate reduced from 2.00 percent to 1.75 percent. Discount rate reduced from 1.50 percent to 1.25 percent. China becomes WTO member.
<b>December 21</b>	GDP down 1.3 percent in Q3.
<b>December 31</b>	Markets fall for a second straight year for the first time since 1974.

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**2002**

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<b>January 1</b>	Taiwan becomes WTO member. OPEC to cut oil production by 6.5 percent. Euro becomes legal tender in 12 European countries.
<b>January 6</b>	Unemployment insurance benefits increased in California.
<b>February 28</b>	GDP up 1.4 percent in Q4.
<b>March 9</b>	California's "Job Creation and Worker Assistance Act of 2002" was signed into law that provides for temporary extended unemployment compensation.
<b>March 28</b>	GDP up 1.7 percent in Q4.
<b>April 25</b>	Security and Exchange Commission launched a formal investigation of Wall Street analysts' conflicts of interest.
<b>May 13</b>	President Bush signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers.
<b>June 27</b>	GDP up 6.1 percent in Q1.
<b>July 5</b>	Foreign direct investment flows to developed countries declined by 56% in 2001, with the United States seeing the largest fall off to its lowest level since 1997.
<b>July 8</b>	Intel launches its Itanium 2 chip.
<b>July 10</b>	President Bush called for stiffer penalties to eradicate corporate fraud.
<b>July 15</b>	Pfizer to buy Pharmacia.
<b>July 16</b>	The dollar sank against the euro for the first time in more than two years. Intel to eliminate 4,000 jobs.
<b>July 21</b>	WorldCom filed for bankruptcy protection.
<b>July 22</b>	The Dow Jones industrial average sank to its lowest level in nearly four years. Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.
<b>July 30</b>	President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.

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2002

July 31

GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1. Last year's data was also revised indicating that the economy shrank in each of the first three quarters.

Venture capital investments hit four-year low.

August 8

IMF signed an emergency loan to Brazil.

August 11

U.S. Airways filed for bankruptcy.

August 20

The U.S. trade deficit narrowed in June, following two straight record monthly deficits.

September 27-

October 9:

Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.

November 6

Federal funds rate reduced from 1.75 percent to 1.25 percent.

December 9

United Airlines filed for bankruptcy protection.

December 19

Standard & Poor's lowered California's bond rating to an A from an A+.

2003

February 10

Moody's lowered California's bond rating to A2 from A1.

February 14-17

A major snowstorm hit the Middle Atlantic and Eastern states.